Economic development competitive

Financial incentives can turn the decision in Kentucky's favor

By Gene Strong

The November 6 *Lexington Herald-Leader* article on state incentive programs told an incomplete and misleading story designed to confuse and confound most Kentuckians.

Those who were around 20 years ago will recall the *Herald-Leader* also questioning the use of state incentives for Toyota Motor Corporation's manufacturing facility in Georgetown. The wisdom of that decision has long been justified by the return on that investment to Kentucky in thousands of new jobs and the location of numerous supplier plants. The goal of a good "return on investment" still governs Kentucky's use of financial incentives.

First, it must be understood that economic development – the practice of influencing the location of business investment – is very competitive. The business that invests dollars and creates jobs must be convinced that its selected location can support a successful operation. Major factors in this decision include the availability and cost of a skilled workforce, suitable building or site, utilities, transportation access, tax and regulatory structure, to name just a few. When a Kentucky community is competitive on these items with other locations, the use of financial incentives can turn the decision in Kentucky's favor.

Second, the return on investment to Kentucky through these incentives has been significant. An important fact that the *Herald-Leader* did not point out is that all incentive programs apply to both new locations and existing business expansions, for both manufacturers and service and technology firms. Since 1989, Kentucky's use of tax credit incentives has influenced the location of 1,034 projects, with combined investments exceeding $15 billion, creating 125,000 new jobs in Kentucky. Approximately 50 percent of all companies receiving tax credit incentives since the inception of the programs have been existing businesses already located in Kentucky.

Third, the financial incentives administered by the Cabinet for Economic Development are performance-based and monitored for compliance on an ongoing basis. A business must indicate its planned capital investment and the number of jobs it will create. Incentives are approved in written contracts that include specific limits on the amount and duration of assistance. It should be made clear, that if a company approved for tax incentives fails to meet its obligations, the company will not receive the benefit.

Contrary to the *Herald-Leader's* report, the value and legitimacy of these programs have been reviewed and supported by five governors and numerous legislative entities over the past 25 years, all of which have encouraged the continuation and strengthening of these programs.

Over the last 20 years, the primary structure of state incentives has evolved from cash to tax credits. This approach benefits Kentucky by preserving a scarce resource and requiring the business to create new tax revenue before it can benefit from any incentive. A business that fails to create new taxable revenues for Kentucky will receive no benefit. To date, total tax credits of $4.8 billion have been approved, but only $579 million or 12 percent have been earned. When compared to the total business investment of $15.4 billion, the credits taken amount to 3.7 percent of value received.

The *Herald-Leader's* opinion that most companies receiving tax incentives are irresponsible in fulfilling their obligations is naive at best. In fact, since the inception of these programs the state has garnered an excellent rate of success. Employees of companies such as UPS, Webasto Roof Systems, Daicel Safety Systems America, North American Stainless, Bowling Green Metalforming and many others would have a much more positive view of how the location or expansion of a business impacts their communities.

Last, while I understand the role of the *Herald-Leader* to explore and explain, Kentucky taxpayers should be aware of their share in the cost of the article. Over the last nine months, open records requests by the *Herald-Leader* have required our Cabinet to review and produce more than 16,000 pages of public documents, contradicting the *Herald-Leader's* assessment that the Cabinet works in secrecy. While the *Herald-Leader* did pay 10 cents per copy, the cost of staff time in preparing materials for disclosure cost Kentucky taxpayers an estimated $29,000. Kentuckians deserve a better return on that investment than an incomplete and misleading story on this Cabinet's efforts.

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